TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
14	D/PAO				
15	VC/NIC				
16	NIO/ECON		X		
17					
18					
19					
20					
21					
22					

SUSPENSE ____________
Date

Remarks

STAT

Executive Secretary
24 Jul 85
Date

3637 (10-81)

WASHINGTON

July 22, 1985

NOTE FOR WILLIAM J. CASEY

FROM: ROGER B. PORTER RBP

The minutes of the Economic Policy Council for June 17, July 2 and 17, 1985 are attached.

Executive Registry
85- 2729/1

MINUTES
ECONOMIC POLICY COUNCIL

July 17, 1985
4:00 p.m.
Roosevelt Room

Attendees: Messers. Baker, Block, Yeutter, Sprinkel, Whitehead, Darman, Brown, Burnley, Wright, Friedersdorf, Kingon, Porter, Thompson, Naylor, Chew, Lacey, Davis, Moore, Niehenke, Khedouri and Stuckey.

1. Economic Conditions in the Farm Sector and Legislative Alternatives

Secretary Block and Assistant Secretary Thompson reviewed the current economic conditions in the farm sector. Government policies have contributed to retaining excessive resources in agriculture and pulling 55 to 60 million acres back into production. During the late 1970s demand for agricultural products increased significantly, largely due to rising exports. From 1971 to 1981 U.S. farm land values increased over four fold contributing to considerable expansion in the agricultural sector.

Rigid loan rates and target prices provided little flexibility in this sector of the economy and have contributed to the difficulties faced by many American farmers to date. Over the last four years land prices are down nationwide by 19 percent. This, however, masks much greater distress in the corn states and great plains. Land prices in Iowa over the last four years have declined by 49 percent and land prices in Nebraska have declined by 46 percent. Weak domestic demand and declining exports have dampened commodity prices and farm income.Depressed land prices and increasing farm debt problems have contributed to rising farm and financial institution failure rates.

Mr. Thompson described the environment in which the farm bill is being drafted as consisting of three principal elements. First, agriculture committee members recognize that current farm programs are pricing U.S. producers out of world markets and that prices must fall to restore international competitiveness. Secondly, committee members insist, however, that any new farm legislation must seek to maintain farm income. Third, committee members also recognize that getting federal spending under control is essential, but many consider this less important than protecting farm income.

DCI
EXEC
REG

L-300

The Senate Budget Resolution provides some discipline at the approximately $32 billion level as calculated by the Congressional Budget Office. This is equivalent to the Administration's calculation of $38 billion since we include a loss reserve for CCC export credit guarantees.

Mr. Thompson noted that approximately 10 percent of farmers now owe 45 percent of the total farm debt. Ambassador Yeutter noted that this may will understate the deterioration that is occuring due to the dramatic decline in land prices in the Midwest that continues.

Mr. Thompson noted that the Administration's farm bill received little support except from the National Cattlemans Association. Members of Congress are now examining for other basic farm program approaches.

The Boschwitz-Boren approach would discontinue target prices and drastically reduce loan rates. In its place direct income transfers or transition payments would be provided to protect farm income. The marketing loan approach would establish a program allowing a producer to buy back the loan during the redemption period at the original loan rate or the market price at the time of repayment, whichever is lower. If the market price is less than the loan rate, the Commodity Credit Corporation would incur the loss or the difference between the loan rate and the market buy-back price.

The Farm Bureau approach would gruadually move toward a free market, continuing price supports as a percentage of past market prices and initially allowing them to drop no more than 10 percent a year. Target prices would be frozen in 1986 at 1985 levels and then gradually reduced 5 percent annually.

The final approach, which has received a good deal of support in the House Agriculture Subcommittee, would impose mandatory production controls. This approach would require the Secretary of Agriculture to proclaim national marketing quotas for major program crops and determine the acreage each farmer could plant of each commodity. A producer referendum would be held to determine whether producers approve or disapprove the quotas. In the event quotas were diaspproved, producers would receive price and income protection at much higher levels.

Mr. Thompson also reviewed the estimated budget costs associated with each of these alternatives and their strength in the Congress.

The Council's discussion focused on the impact of a one-year extension of the current legislation, the need to reorient agricultural policy toward the free market, the need for a prompt and efficient transition, and the advantages and disadvantages associated with each of the four approaches under consideration in the Congress.

The Council also discussed the frequency with which transition arrangements are often changed in out years, the accuracy of estimates regarding the cost of various programs, and the value in focusing programs more narrowly by restricting eligibilty such as payment limitations on what individual farmers can receive.

The Council discussed the pressure for export subsidies and the acceleration of federal credit exposure associated with a one year extension of current law, as well as the leverage associated with a veto threat. Finally, the Council discussed the possibility for folding the farm bill into a bipartisan budget reconciliation instruction depending on the outcome of current budget negotiations.

The Council agreed that:

(1) Mandatory supply controls are unacceptable in any form.

(2) Marketing loans are unacceptable because they invite a large budget exposure with no prospect of declining over time.

(3) Failure to adopt a policy that permits market prices to fall in order to restore export competitiveness is also unacceptable.

(4) Extending current law, which would continue to make us noncompetitive in world markets and accelerate federal credit exposure because commercial banks would withdraw more rapidly due to long term uncertainty, is unacceptable.

The Council also agreed that:

(1) The Boschwitz-Boren approach more nearly corresponds with the approach embodied in the Administration's original farm bill proposal.

(2) Historically, transition assistance, as envisioned by Boschwitz-Boren, has been subject to frequent adjustment. This suggests the potential risk in paying a high up front price for basic policy reforms.

(3) The Farm Bureau approach, while at least in the right direction, in its current form moves too slowly to establish export competitiveness in the near term.

(4) The Farm Bureau approach, at the present time, has the best prospect for serving as a compromise vehicle.

(5) One promising approach is to modify the Farm Bureau proposal by accelerating the decline in loan rates and target prices.

(6) Another promising modification to keep the bill within the Senate Budget Resolution dollar limits is to restrict eligibility for certain programs, such as a payment limitation on the amount any individual farmer could receive.

Secretary Baker requested that Mr. Porter prepare a short summary of the meeting for use by the Legislative Strategy Group in its discussion of the 1985 Farm Bill scheduled for Friday, July 19.

The Council agreed to defer discussion of agricultural credit policy until its meeting on Friday, July 19.